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IN THIS ISSUE:

Diet Confirms New Cabinet 1

MITI Forecasts 2.5 Percent Real Growth In FY 1986 4

Agenda For New Round Of Multilateral Trade Talks Approved 6

Trade Debate Heats Up Again 7

United States Takes Japan To GATT On Farm Quotas 9

Notes 10

Diet Confirms New Cabinet

The Japanese Diet July 22 confirmed a new cabinet that reflects the changes resulting from the July 6 elections and forbodes future leadership transitions. Coupled with the new alignment were rumors that senior officials of the ruling Liberal Democratic Party had agreed to extend Yasuhiro Nakasone's term as LDP president -- and thus as prime minister -- beyond October 1986, the scheduled expiration date.

The most significant shifts in the new roster involve the three contenders to succeed Mr. Nakasone as party president and premier. Both Shintaro Abe, the foreign minister, and Noboru Takeshita, the finance minister, satisfied their personal ambitions by leaving the cabinet and nailing down LDP party positions -- Mr. Takeshita as LDP secretary general and Mr. Abe as executive council chairman. These changes allow them to solidify control of their

personal factions, expand their influence within the party, and set the groundwork for their campaigns for the premiership. It also enables both men to distance themselves from current government policies, thus avoiding being tainted by views identified with the Nakasone government and allowing them to establish independent positions. In the short term, this is particularly important for Mr. Takeshita, who has been nicknamed "Mr. High Yen" for his role in driving up the value of the yen on international markets. Although less significant, Mr. Abe -- who recently was named chairman of the Fukuda faction -- might seek to place some distance between himself and the decidedly pro-defense posture of the present government.

The other key figure in Japan's political drama, former LDP executive council chairman Kiichi Miyazawa, was named finance minister. The appointment suggests several political and policy implications. The first is that the price of continued support for Mr. Nakasone by the Suzuki faction was retention of its de facto leader in an important government position. The finance minister is a prestigious and influential post that will keep Mr. Miyazawa in the public eye. At the same time, however, the appointment restricts his options by tying him to the Nakasone government's policies. Of the three rivals, Mr. Miyazawa's positions have differed the most from the present government, on matters ranging from economic stimulus to defense. Although he will be able to influence policies to a degree, his political independence will be limited.

The move does suggest that Mr. Nakasone is serious about implementing the Maekawa Commission's suggestions to reform the domestic economy. It also means that if the government chooses to reflate Japan's economy, the Ministry of Finance will be less of an obstacle since Mr. Miyazawa has been the most vocal proponent of stimulus plans. The move will not automatically translate into stimulative policies, however, since MOF as a whole remains committed to tight budgets; years of budget-cutting gospel cannot be reversed overnight. Finally, Mr. Miyazawa assumes his post at a time when preparations for fiscal 1987 (April 1, 1987-March 31, 1988) are well under way. Preliminary budget spending guidelines have been established, limiting his influence on next year's fiscal policy.

This may also be the case with regard to defense policies. Under the Nakasone government, defense and official development assistance consistently have received higher increases than most other categories. Mr. Miyazawa is perhaps the most dovish of the three "New Leaders" in Japan. He was foreign minister when the government established the one percent of GNP limit on total defense spending. Coupled with his new position as finance minister, this may serve to reassure defense critics that the Nakasone government will attempt to honor the spending limit.

But it will not necessarily mean smaller spending increases. The prime minister remains committed to defense and the Japan Defense Agency's five-year plan has official status, which gives it greater leverage with the normally tight-fisted Finance Ministry. Furthermore, continuity in defense policies has been assured by the return of former JDA director general Yuko Kurihara, replacing Koichi Kato. If Mr. Miyazawa balks at higher defense spending, it would more likely be a result of MOF institutional interests than his personal preferences.

Replacing Mr. Abe as foreign minister is Nakasone associate Tadashi Kuranari. The designation of a Nakasone supporter in the post indicates that the prime minister plans to continue asserting his personal mold on Japan's international relations, although it is unlikely that the country's foreign policy will be altered drastically. (This is an important point for overseas observers who might mistakenly interpret Mr. Abe's departure as a change in Japan's foreign policies to keep in mind.) Because of his valued role in the July double elections, former LDP secretary general Shin Kanemaru was designated deputy premier.

One face that is missing is Susumu Nikaido's, former LDP vice president and once the right-hand man of "kingmaker" Kakuei Tanaka, whose influence within the party continues to dwindle. This could lead to his replacement as chairman of the Tanaka faction by Mr. Takeshita, whose influence over the group has been on the increase. Also absent is a member of the New Liberal Club, the LDP's coalition partner from December 1983 to July 1986. The Komoto faction placed one member in a relatively minor post.

With the cabinet changes in place, political observers now expect Mr. Nakasone's term as LDP president to be extended for at least one year. This would complete a remarkable series of developments within Japan and assure Mr. Nakasone's continuation in office as prime minister, an event that was considered virtually impossible two years ago. In political terms, the reshuffling also appears to give Messrs. Takeshita and Abe the superior position in the struggle to replace the incumbent.

Michael W. Chinworth

Fifth Nakasone Cabinet

July 22, 1986

Ministry	Name	Age	Faction
Prime Minister	Yasuhiro Nakasone*	68	Nakasone
Deputy Prime Minister	Shin Kanemaru	72	Tanaka
Justice	Kaname Endo	71	Tanaka
Foreign Affairs	Tadashi Kuranari	68	Nakasone
Finance	Kiichi Miyazawa	67	Suzuki
Education	Masayuki Fujio	69	Abe
Health and Welfare	Juro Saito	46	Tanaka
Agriculture, Forestry, Fisheries	Mutsuki Kato	60	Abe
International Trade and Industry	Hajime Tamura	62	Tanaka
Transportation	Ryutaro Hashimto	49	Tanaka
Posts/Telecommunications	Shunjiro Karasawa	56	Nakasone
Labor	Takushi Hirai	55	Nakasone
Construction	Kosei Amano	79	Nakasone
Home Affairs	Nobuyuki Hanashi	58	Suzuki

State Ministers

Cabinet Secretary	Masaharu Gotoda*	72	Tanaka
Management/Coordination	Tamaki Kazuo	63	Ind.
Hokkaido/Okinawa Development National Lands	Tamisuke Watanuki	59	Tanaka
Defense	Yuko Kurihara	66	Suzuki
Economic Planning	Tetsuo Kondo	57	Komoto
Science/Technology	Yataro Mitsubayashi	68	Abe
Environment	Toshiyuki Inamura	51	Tanaka
Legislative Director	Osamu Kimura	62	--

*Retained from previous cabinet.

Liberal Democratic Party Positions

President	Yasuhiro Nakasone	68	Nakasone
Vice President	Vacant	--	--
Secretary General	Noboru Takeshita	62	Tanaka
Chairman, Executive Council	Shintaro Abe	62	Abe
Chairman, Policy Affairs Research	Masayoshi Ito	73	Suzuki

Factional Balances in Cabinet Seats

(number of positions held excluding deputy prime minister)

	Previous Cabinet	Current Cabinet
Tanaka	6	7
Nakasone	4	5
Suzuki	4	2
Abe (Fukuda)	4	3
Komoto	2	1
New Liberal Club	1	0
Independent	1	2

MITI Forecasts 2.5 Percent Real Growth In FY 1986

The Ministry of International Trade and Industry predicted last week that the economy will grow an inflation-adjusted 2.5 percent in FY 1986, well below the official government projection of 4 percent real growth. MITI economists expect the yen's appreciation to reduce the volume of exports 5 percent and slow the economy from the 4.2 percent growth recorded in fiscal 1985. June's trade data showed a 2.3 percent drop in export volume, the fourth consecutive monthly year-on-year decline.

The MITI report agrees with the consensus of private economists. Twenty major research organizations forecast an average 2.4 percent real growth rate

in FY 1986 (see Table), down 0.4 percentage point from earlier projections, which were based on an exchange rate of Y184=$1.00. They anticipate only a modest 3.3 percent rise in personal consumption (compared to 2.7 percent in FY 1985), despite a projected 9.2 percent drop in wholesale prices. And they expect private capital spending to increase at only 4.5 percent, one-third of the rate recorded in FY 1985. In addition, these groups say that Japan's current account surplus could rise from $55.1 billion in FY 1985 to $80.2 billion in the current fiscal year.

Revised Economic Forecasts for Fiscal 1986

(year-to-year percentage changes in real terms)

	GNP Growth	Personal Consumption Spending	Private Capital Spending	Current Account Surplus*	Yen-Dollar Exchange Rate
Daiwa Securities Research Institute	3.4%	3.5%	3.9%	$84.0	Y167
Sumitomo Trust and Banking	2.9	4.4	5.1	68.3	164
Kokusai Securities	2.8	2.9	4.4	89.0	163
New Japan Securities Co. Research Institute	2.6	3.5	4.4	78.0	168
Bank of Tokyo	2.6	3.6	4.7	79.4	164
Fuyo Data Processing & Systems Development	2.6	2.6	7.9	69.6	166
Nomura Research Institute	2.5	3.4	5.1	80.4	163
Yamaichi Research Institute of Securities & Economics	2.5	3.3	3.5	87.4	164
Nikko Research Center	2.5	2.9	4.4	88.9	165
Dai-Ichi Kangyo Bank	2.4	3.0	5.3	80.8	163
Mitsubishi Trust and Banking	2.4	3.5	3.5	75.5	168
Nikkei Economic Electronic Databank System	2.4	3.3	5.2	81.8	166
Kyoto University Institute of Economic Research	2.3	3.2	2.4	72.4	168
Japan Economic Research Center	2.3	3.2	4.6	81.7	170
Tokai Bank	2.2	3.5	4.3	85.0	163
Okasan Economic Research Institute	2.1	2.6	3.1	76.9	163
Yasuda Trust & Banking	2.1	3.3	4.7	81.2	170
C. Itoh & Co.	2.1	3.0	4.5	79.5	170
Industrial Bank of Japan	2.0	3.6	5.6	74.4	162
Mitsubishi Research Institute	1.8	2.8	2.9	89.5	161
Average	2.4	3.3	4.5	80.2	165

*In billions of dollars

Source: Japan Economic Journal, July 19, 1986.

Despite the slowing economy, the Ministry of Finance continues to press for a 10 percent cut in general operating expenditures and a 5 percent reduction in investment-related programs funded through the general account budget. This plan to reduce discretionary spending for the fifth consecutive year is supported by a MOF advisory council chaired by Yoshihiro Inayama. The effort to rebuild the nation's finances is at a critical stage, Mr. Inayama told a Tokyo press conference July 16, given the rising support among business and Liberal Democratic Party leaders for increased government spending to offset the deflationary effects of the strong yen.

A government-commissioned report released last week by the Economic Planning Agency, however, urged the government to maintain the budget deficit at its current level. The study, prepared by the Mitsubishi Research Institute, said that if Japan is to reduce its large trade surplus with the United States, Tokyo's plan to end its budget deficit by FY 1990 must be shelved temporarily and the United States will have to shrink its budget deficit.

The debate over fiscal stimulus centers on the size of the supplementary budget proposed for this fall. Prime Minister Yasuhiro Nakasone promised to consider expenditures of up to Y3 trillion ($18.8 billion at Y160=$1.00), which senior MITI officials believe is necessary if the country is to achieve 4 percent real growth in FY 1986. This position recently received support from the former head of the Economic Planning Agency, Wataru Hiraizumi, who added that the government should not wait until autumn to stimulate the economy. Predictably, the outgoing finance minister, Noboru Takeshita, expressed reservations about a supplementary budget since it would require the government to float more construction bonds.

Randall S. Jones

Agenda For New Round Of Multilateral Trade Talks Approved

A draft agenda for a new round of multilateral trade negotiations that includes services, intellectual property and agriculture has been approved by a majority of member countries of the General Agreement on Tariffs and Trade. The agenda also includes a freeze on new protectionist measures and a rollback of existing barriers. A group of developing nations, led by Brazil and India, is demanding the rollback as a precondition for the launching of a new round. The draft will be discussed at the GATT ministerial meeting scheduled for September 15 at Punta del Este, Uruguay, which is expected to launch the trade talks.

Brazil, Argentina and India appear to have lost their fight to exclude trade in services from the negotiations. They had argued that international rules on services trade would permit foreign interference in sovereign areas, such as banking, and that their service industries would not be able to compete with those in the advanced countries. The United States, Japan and the European Community insisted on the inclusion of services, given its rising importance in their economies. To achieve a meaningful agreement on services with the developing countries, though, the industrialized countries will probably have to open their markets to more third world imports.